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Should East Asia Go Regional?

No, No, and Maybe

Arvind Panagariya

An evaluation of three approaches to East Asian regionalism: (1) The costs of subregional preferential trading schemes in East Asia have far outweighed their expected benefits. (2) Although the *threat* of a formal East Asian trading bloc along the lines of the EC may serve some purpose, its actual execution might be difficult. (3) And although simultaneous, most favored nation-style, nondiscriminatory regionwide liberalization may be feasible, the case for it is far from airtight.

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Panagariya studies the case for three different approaches to regionalism in East Asia.

First, he examines closely the only serious attempt at preferential trading in the region — the Association of Southeast Asian Nations (ASEAN), which has recently announced plans to form the ASEAN Free Trade Area (AFTA). Conclusion: the costs of such subregional schemes far outweigh their expected benefits.

Second, he evaluates the case for a formal East Asian trading bloc along the lines of the European Community, and concludes that although the *threat* of such a bloc may serve some purpose, its actual execution might be difficult, given the diverse levels of protection across different countries in the region, and the possibility of retaliation from the United States through increased protection against East Asian goods.

Third, he examines the case for *simultaneous*, most favored nation-style, nondiscriminatory regionwide liberalization. Panagariya argues that that although such a regional approach "may" be feasible, the case for it is far from airtight. On the one hand, this approach will face less resistance from the United States, and is likely to promote an open world trading system in the long run. On the other hand, in the short run it is likely to be resisted because of the adverse effect on terms of trade in the participating countries.

Should East Asia Go Regional? No, No and Maybe.

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Apart from occasional flirtations, East Asia did not court regionalism during the decades following the Second World War. The first wave of regionalism, launched with the founding of the European Community in 1957, claimed large parts of Western Europe, Africa, and Latin America. But East Asia, like North America, remained virtually untouched by it. There was only one regional arrangement--the Association of South-East Asia Nations (ASEAN)--founded during this period in the region. And even this arrangement, despite best intentions, did not create significant trade preferences among its member nations.[1]

Today, the issue of regionalism has resurfaced in East Asia. In spite of the remarkable growth stimulated by global, not regional, outward orientation, regionalism has reappeared on the agenda. The flagging talks at the Uruguay Round, aggressive unilateralism by the United States, the signing of the North American Free Trade Agreement (NAFTA), and a continuous widening and deepening of the European Community (EC) are leading some countries in the region to take another look at the regional alternative. This development has manifest itself, inter alia, in the recent signing of the ASEAN Free Trade Area (AFTA).

The world facing East Asia is evolving rapidly. There has been an unmistakable trend towards regional trading blocs in Europe and North America. In the EC, the process of consolidation and expansion of the common market has been moving ahead at a steady pace. Though tariff barriers have come down under the auspices of the GATT, nontariff barriers in the Community have expanded. The coverage of these barriers on imports of manufactures from outside countries has risen from 10% in 1966 to 56% in 1986. Intraregional trade among the

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[1]There are six members of ASEAN: Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Excluding Singapore which is a free-trading country, intra-ASEAN trade accounts for less than 5% of the countries' trade. Of this, less than 5% is subject to any kind of trade preferences.

EC-12 has expanded from 6% of the GDP in 1960 to 13.8% in 1990. At the same time, trade with the rest of the world has remained unchanged at 8.7% of the GDP in the case of exports. Most recently, the "Europe 1992" movement for a "Single European Market" has had the undesirable side effect of promoting the "fortress" mentality in the region. This was illustrated graphically by the recent remark made by the EC Commissioner for Foreign Relations Willy de Clerq, "We are not building a single market in order to turn it over to hungry foreigners."[2]

In the Americas, the United States' commitment to the GATT process has weakened. At the same time, other countries in the region have lost confidence in the GATT's ability to maintain an open world trading system. The result has been an upsurge of interest in regional arrangements leading to the Canada-U.S. Free Trade Agreement and the signing of the NAFTA among Canada, Mexico and the United States. The Bush administration even launched the Enterprise of Americas Initiative under which the United States may negotiate FTAs with groups of Latin American countries. Latin American countries are, in turn, eager to enter regional pacts with the United States to secure future market access for their exports. In the medium to long run, a Western Hemispheric FTA cannot be ruled out.

Yet another disturbing development from the viewpoint of East Asia is the rise of "aggressive unilateralism" in the United States. Large and persistent current account deficits and a steady decline in the U.S. competitiveness in manufacturing have led to an increasing acceptance of the view in the U.S. that a partial solution to America's trade problems lies in threatening Japan with increased barriers to its exports to United States unless it meets prespecified targets for imports from the latter.

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[2]See Winters (1993).

An inescapable implication of these developments is that East Asia must begin to devise strategies which will permit it to maintain a high level of growth in the region. Should regionalism be a part of this strategy? If yes, in what form? If not why not? These are the central questions addressed in the present paper. I evaluate both the dangers and promises of regionalism for East Asia.

In Section 1, I provide an overview of East Asia with special emphasis on the region's trade flows. In Section 2, I discuss the main messages of the old and new literature on regional integration. In Section 3, the case for regional integration in East Asia is considered. Cases for three possible forms of integration are evaluated: sub-regional groupings such as the ASEAN, an East Asian trading bloc, and region-wide nondiscriminatory liberalization. I argue that the first of these is undesirable, the second is infeasible, and the third holds some promise though the case for it is far from clear cut. In Section 4, brief concluding remarks are offered.

1. East Asia: An Overview[3]

In this section, I summarize East Asia's position in the global context and offer a broad look at major players in the region. My objective is to create a simple but clear picture which the reader can carry in his mind while reading the rest of the paper. For the more devoted reader, detailed and precise information is provided in a series of tables at the end of the paper. Because I plan to limit myself to regional integration in trade, the discussion is focused primarily on regional trade flows. In East Asia, investment flows are an important part of the integration story but, mindful of my comparative disadvantage, I leave this topic for other authors.

1.1 East Asia in the Global Context

During 1980s, growth rates in all major countries in the region, except Philippines, exceeded the growth rate in industrial market economies by at least 1% and as much as 6.6% (Table 1). Outside the region, India was the only country which grew at rates comparable to those experienced by some of the countries in the region. East Asia's share in the world's GDP, exports and imports has grown steadily while its share in population has declined slightly over the decade (Table 2). In 1990, the region accounted for slightly less than one fifth of both the world GDP and world trade and one third of the world population.

There have been three main changes in the distribution of East Asia's exports across major regions of the world during 1980-90. First, the share of less developed countries has declined by half. Second, North America's share increased sharply during the first half of the

[3]In this paper, the term East Asia is defined loosely to refer to Japan, the Newly Industrialized Economies (NIEs) (Hong Kong, Korea, Singapore and Taiwan), ASEAN 4 (Indonesia, Malaysia, Philippines and Thailand), and China. Other countries such as Brunei, Cambodia, North Korea and Vietnam are obviously a part of the East Asia region. But they do not appear explicitly in our analysis.

decade but declined, though less sharply, in the second half. Third, as with North America and Western Europe, intra-regional trade has grown proportionately over the years.

In 1980, East Asia exported 30% of its goods to itself, 26% to North America, 19% to Europe, and 18% to Latin America, Africa, Middle East, and South Asia (Table 3). In 1985, the region's exports to North America rose to 38% and those to itself fell to 25%. Between 1985 and 1990, there was a rapid shift in East Asia's exports away from other partners to itself. By 1990, the region was the largest recipient of its own goods. It exported approximately 32% of the goods to itself, 32% to North America and 21% to Europe. The combined share of Latin America, Africa, Middle East, and South Asia fell to a mere 8%.

1.2 Major Players in the Region

In economic terms, there are ten major players in East Asia: the ASEAN 4 consisting of Indonesia, Malaysia, Philippines, and Thailand; the Newly Industrialized Economies (NIEs) comprising Hong Kong, Republic of Korea, Singapore, and Taiwan (China); and China and Japan. Several features of the countries are worth noting.

(i) Per-Capita Incomes, Growth, and Centrality of Japan. The countries in the region are at very different levels of development. With a per-capita income of $23,800 in 1990, Japan is the richest country in the region (table 2). Per-capita incomes in the remaining countries range from a low $327 in China to $11,700 in Singapore.[4] ASEAN 4 enjoy significantly lower per-capita incomes than the NIEs. Within ASEAN 4, Malaysia and Thailand are richer than

[4]Per-capita incomes change dramatically if they are calculated at the purchasing power parity (PPP) rather than the nominal exchange rate. According to the recent IMF calculations, they rise almost by a factor of four in the case of China. In the case of Japan, they fall by a factor of 0.7.

Indonesia and Philippines. Within NIEs, Singapore and Hong Kong enjoy higher per-capita incomes than Korea and Taiwan (China).

Economically, Japan is by far the largest nation in the region. Its share in the world GDP for the year 1990 was 13.5%. Within East Asia, it accounted for approximately 70% of the region's GDP. If we exclude Japan, East Asia's share in the world GDP drops from one fifth to one twentieth. The picture changes, however, if we use GDP figures based on the purchasing power parity (PPP) instead of those in Table 2 which are based on nominal exchange rate. Thus, according to the recent, PPP-based IMF figures, China comes close to Japan in terms of size. According to these figures, for the year 1990, China's share in the world GDP is 6% compared with Japan's 7.6% and Germany's 4.3%. Ar the current rate of growth, China will soon overtake Japan. In terms of population, China accounts for 70% of the region's population. If we exclude it, East Asia's share in the world population declines from one third to less than one tenth.

The remaining economies in the region are small. Indeed, based on data in Table 2, with the exception of China, the republic of Korea, and Taiwan (China), individual shares of the remaining 6 countries in the world GDP are less than 0.50%. The combined share of China, the Republic of Korea, and Taiwan (China) is less than 3%.

Real incomes have grown rapidly in East Asia during the past three decades. In the three NIEs for which information is available--Hong Kong, Korea and Singapore--real growth rates have ranged from 6% to 10% in each of the three decades between 1960 and 1990 (Table 1). More broadly, with just three exceptions--Indonesia in the 1960s, and Japan and the Philippines in the 1980s--all ten economies in the region have grown at real rates exceeding 5% per annum during each of the past three decades. No economy outside East Asia has been able to perform this feat. The best examples outside East Asia are Brazil and Mexico. Each of these countries grew at real rates exceeding 5% during 1960s and 70s but did extremely poorly during 1980s: Brazil grew at a rate of 2.7% and Mexico 1%.

(ii) Importance of Trade. Trade has been the undisputed engine of growth for virtually all economies in the region except perhaps Japan.[5] Export performance of the NIEs is well documented. Korea's export growth has been in the double digits during each of the past three decades. In the 1960s and 1970s, its exports grew at the phenomenal rates of 34% and 23%, respectively. In the 1980s when world trade grew far less rapidly than in the previous two decades, exports of China, Korea, Malaysia, Taiwan (China) and Thailand still managed to grow at rates exceeding 10%.

Though trade regimes in East Asia can be characterized as generally open, there is a substantial variation in the level of protection across countries. Openness of Japan's trade regime has been a matter of great deal of controversy in recent years. In terms of formal barriers, Japan's trade regime is as open as those of other developed countries. There are virtually no quantitative restrictions in the country and tariff rates are low (see Table 11). Yet, the import-to-GDP ratio of the country is lower than that of other countries of similar size and income. This is viewed by some as prima facie evidence that the country's markets are de facto closed.

[5] There is general agreement that Japan has relied on the infant-industry protection in some cases. Its relatively low exports-to-GDP ratio at 12% in 1980, 13% in 1985 and 10% in 1990 suggests that the momentum for growth must come predominantly from internal markets.

Among the remaining East Asian countries, Hong Kong and Singapore are textbook examples of free trading economies. For five out of the remaining seven countries--Korea and ASEAN 4--Table 4 provides the relevant information. The most remarkable point to note is that quantitative restrictions in Korea, Malaysia, Philippines, and Thailand have been scaled down dramatically during 1980s with the result that they appear almost extinct for the latest year for which information is available. Tariff rates have also been reduced in these countries but they are still high, especially in Thailand. Indonesia has high levels of tariff as well as quantitative restrictions. Effective rates of protection for manufacturing in Indonesia and Thailand exceed 50%. China is also among the more protected economies of the region. The unweighted and trade-weighted mean tariff rates in China were 43% and 32%, respectively, in 1992. The coverage of administrative import regulation extends to more than 50% of the imports. But because China's import-GDP ratio has been rising rapidly and tariff revenue as a percentage of the c.i.f. value of imports is very low (5.6% in 1991), it has been suggested that China's regime is de facto much more open than is suggested by its formal barriers.[6]

Purely in terms of trade-to-GDP ratios, the smaller economies of the region are very open. As shown in the last two columns of Table 2, except in the case of China and Japan, exports and imports as a percentage of GDP are high. In 1990, these ratios were in excess of 100 for Hong Kong and Singapore. For ASEAN as a group, each of these ratios is bigger than 30%. For the NIES, the ratios are almost 40%.

[6]We do not have information on Taiwan but its trade regime is known to be generally open.

(iii) Direction of Exports and Imports. Tables 5-8 show the direction of exports and imports of the countries for years 1980, 1985, 1990 and 1991.[7] Beyond some special relationships to be noted below, the center of gravity of intra-regional trade is Japan. In 1990, virtually all countries except Hong Kong and Singapore exported more than 10% of their goods to Japan.[8] The proportion of exports of the countries going to ASEAN-4 was quite small. With the exception of Singapore which has a special relationship with Malaysia, these exports ranged from 2.4% for Indonesia to 7.7% for Japan. Exports going to China, potentially the second-largest market in the region after Japan, were also small.

There are two noteworthy subregional trade relationships within East Asia. First, China channels a substantial part of its exports to the United States and EC through Hong Kong. In 1990, China sold 43% of its exports to Hong Kong of which approximately 32% were re-exported. China's imports from Hong Kong are also large and amounted to 26.5% of its total imports in 1990. Taiwan exported 13% of its goods to Hong Kong. The high intensity of trade among China, Hong Kong and Taiwan is reflective of the special, albeit market driven, trade and investment relationships in the sub-region. Second, in 1990, Malaysia sold 23% of its exports to and bought 15% of its imports from Singapore. Indonesia sold 7% of its exports to

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[7] In Tables 5-8, we report the export and import shares for years 1980, 1985, and 1990 as derived from the U.N. Comtrade data and for years 1990 and 1991 as derived from the IMF Direction of Trade (DOT) data . A comparison of shares obtained from the two sources for the year 1990 shows that the two sets of numbers are approximately consistent with each other. The main exceptions may seem to be China in the case of exports and Hong Kong in the case of imports. But this is simply because the DOT data have been corrected for re-exports of Chinese goods by Hong Kong.

[8] Though the latest year for which Tables 5-8 provide information is 1991, in the text I rely on the 1990 U.N. Comtrade data. This is because the other latest trade data discussed in the paper are for that year and from the U.N. Comtrade data bases.

and bought 6% of its imports from Singapore. These flows are related largely to the SIJORI Growth Triangle relationship.[9]

Because of these special relationships, exports of Hong Kong, Malaysia and Singapore are more concentrated in East Asia than of other countries. China's exports are also concentrated in East Asia though not as much after we correct for re-exports from Hong Kong. In 1990, Hong Kong, Malaysia, and Singapore, respectively exported 51.5%, 57% and 45% of their goods to East Asia. At 66%, the share of Indonesia's exports going to East Asia was also large but this was because of the large proportion of its exports going to Japan.

On the import side, the proportion of goods coming from within East Asia is large for virtually all countries. This is either due to a large proportion of imports coming from Japan or special trade relationships. In 1990, the proportion exceeded 40% for all countries except Japan and the Republic of Korea (Table 7 and 8). For 5 out of the 10 countries--China, Hong Kong, Malaysia, Singapore and Thailand--the proportion was in excess of 50%.

2. The Economics of Discriminatory Liberalization[10]

The term regional integration has been used traditionally to refer to discriminatory trade liberalization whereby two or more countries lower trade barriers against one another relative

[9]SIJORI consists of Singapore, Johor, and Riau. The latter two are provinces of Malaysia and Indonesia, respectively. Though there is no trilateral agreement of any kind among the three governments, there are two formal documents signed by the governments of Indonesia and Singapore. These outline Singapore's role in the development of the Riau province and Indonesia's promise to supply water to and guarantee investments from Singapore. For more details, see Chia and Lee (1992).

[10]Some of the points made in this section can be found in Melo and Panagariya (1992) which, in turn, is based on Melo and Panagariya (1993).

to the rest of the world. Because such liberalization makes the participating countries more open to each other but possibly less open to outside countries, its effects on economic efficiency are ambiguous in general. This fact has made regional integration a highly contentious issue.

In this section, I summarize the broad implications of discriminatory liberalization by a pair of countries. The analysis is essentially applicable to more than two countries. The discussion begins with an exposition of the influential concepts of trade creation and trade diversion introduced by Viner (1950) in his classic work The Customs Union Issue. This is followed by a comparison between a free trade area and nondiscriminatory, unilateral trade liberalization. The section is concluded with a discussion of why countries find regional integration an attractive option today.

2.1 Trade Creation and Trade Diversion

Let us begin with the standard, static analysis of a free trade area (FTA) which involves a removal of trade restrictions by partner countries without adopting a common external tariff.[11] Imagine that starting from a nondiscriminatory tariff, Japan and Indonesia form an FTA. For simplicity, focus on the market for VCRs. Assume that VCRs are a homogeneous good and that Indonesia is a net importer of them. At $200 per VCR, Korea is the cheapest

[11]It may be noted that the Vinerian analysis does not focus on the transition from pre-FTA to post-FTA equilibrium. Instead, it compares the two equilibria after resources have been reallocated in response to the formation of the FTA. This means that adjustment costs and temporary unemployment associated with the movement from the pre-FTA to post-FTA equilibrium are not incorporated into the analysis.

supplier of the product in the world.[12] Japan supplies the product at a per-unit price of $220. Unit costs and, hence, the selling prices of Korea and Japan are constant.

Assume that initially Indonesia imposes a 50% tariff on all imported VCRs. This makes the tariff-inclusive price of VCRs from Korea $300 and those from Japan $330. All imports come from Korea and the price of VCRs in Indonesia settles at $300. At this price, suppose that Indonesians buy a total of 150,000 VCRs. Of these, Indonesian sellers, who produce VCRs at increasing marginal costs, supply 100,000. The remaining 50,000 units come from Korea. Indonesia collects $5,000,000 in import duties.

Now suppose that Indonesia forms a free trade area with Japan. The two countries drop tariffs on each other but retain them on outside countries including Korea. Because there is no tariff on Japanese VCRs any longer, these latter can be sold in Indonesia at $220 while Korean VCRs are priced at $300. All imported VCRs now come from Japan and the price of VCRs in Indonesia declines to $220. From an efficiency standpoint, assuming for now a fixed total demand of 150,000 VCRs in Indonesia, two effects can be identified.

First, the original imports of 50,000 VCRs which came from the lowest-cost supplier, Korea, now come from the higher-cost partner, Japan. In Vinerian terms, this is "trade diversion" and is associated with a loss for Indonesia. The loss is manifest in the disappearance of tariff revenue which is recaptured only partially by consumers in the form of a lower price of VCRs. The remainder of tariff revenue goes to pay for less efficiently produced VCRs of the partner country. Second, because VCRs are produced under increasing marginal costs in

[12] Note that we deliberately assume that Japan is not the cheapest source of VCRs. If it were, a free trade area in VCRs will be vacuous in that, given constant costs, the outcome will be unaffected by whether liberalization is preferential or nondiscriminatory.

Indonesia, the output there declines with the decline in price. VCRs produced at a marginal cost higher than $220 in Indonesia are replaced by cheaper imports. This "trade creation" improves efficiency by replacing higher-cost Indonesian production by lower-cost Japanese imports.[13]

Trade diversion reduces efficiency while trade creation improves it. Therefore, the net effect of an FTA is ambiguous in general. **Ceteris paribus, the higher the initial tariff, the lower the difference between the prices of the two suppliers of imports, and the larger the economic size of the union, the more likely that the FTA will improve efficiency.** A high initial tariff means that the potential gains from deprotecting the domestic industry even on a discriminatory basis are large or, equivalently, the trade creation effect is likely to dominate. A small difference between the prices of the partner and the outside source means that the terms of trade deterioration from switching to the partner is small or, equivalently, the trade diversion effect is small. Finally, the larger the union, the more likely that the lowest-cost source of supply will be within the union. For instance, in our example, if Korea was also included in the union, there will be no trade diversion in the VCR market and welfare will rise unambiguously.

As an anchor for future discussion, it is useful to summarize this analysis graphically. In Figure 1, DD' and SS', respectively, represent Indonesia's demand for and supply of VCRs of a given quality. The vertical axis shows the price of an VCR in U.S. dollars and the

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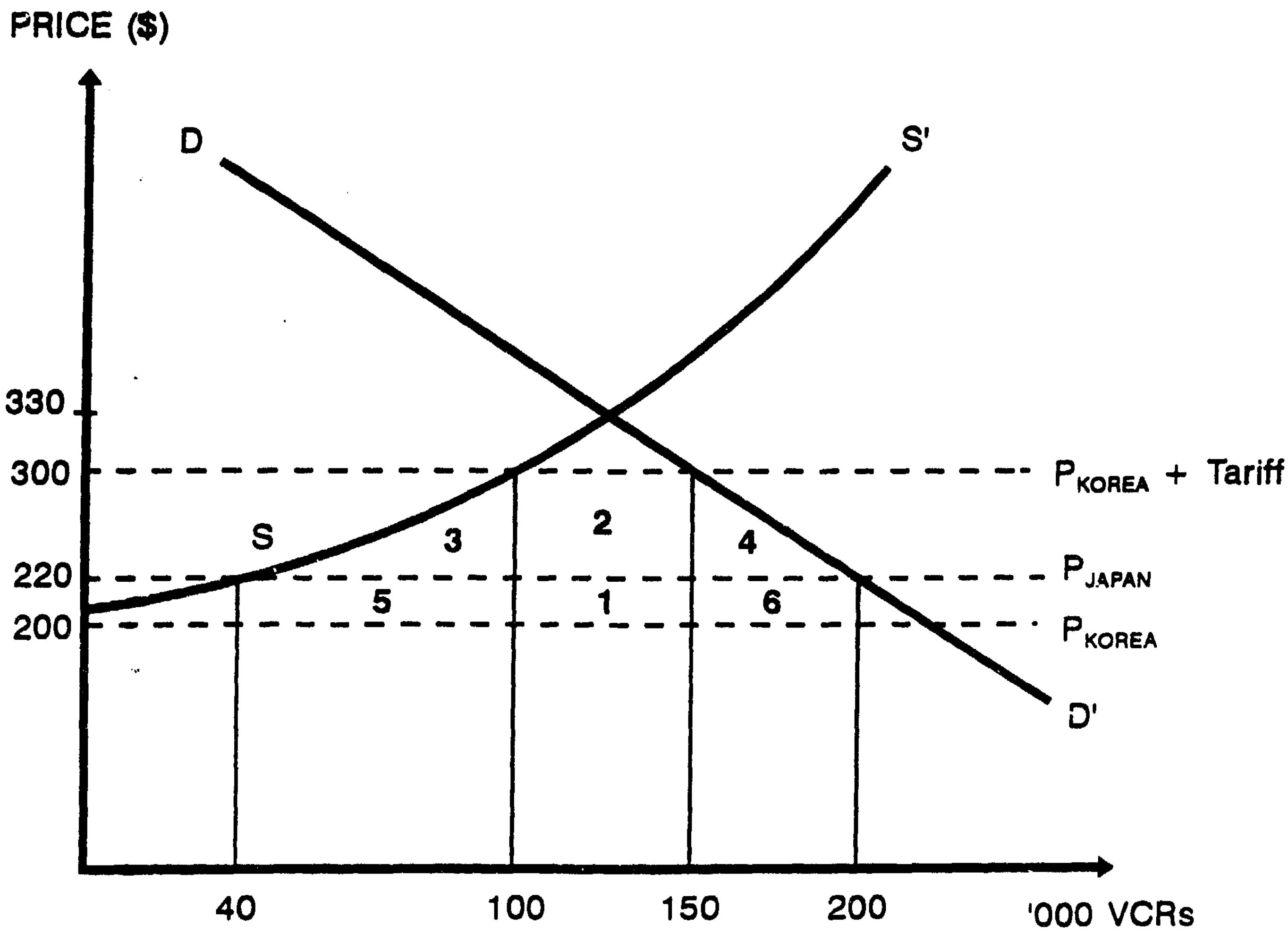
[13]Observe that as noted before, resources released from VCR industry in Indonesia are assumed to be reallocated to other sectors which are more productive. In the transition, there is likely to be unemployment. Moreover, reallocation of resources may involve training and other adjustment costs. These costs are not incorporated into the analysis in the text. If we could measure these costs satisfactorily, however, the analysis can be modified to take them into consideration without harm to the basic conclusions.

FIGURE 1


PRICE ($)
D
S'
330
300
S
3
2
4
220
5
1
6
200
P KOREA + Tariff
P JAPAN
P KOREA
D'
40
100
150
200
'000 VCRs

horizontal axis the quantity in thousand VCRs. Under a nondiscriminatory tariff of 50%, the price in Indonesia is $300 and quantities consumed, produced and imported are 150,000, 100,000, and 50,000, respectively. All imports come from Korea at a border price of $200. Import duties sum to areas 1 plus 2.

An FTA between Indonesia and Japan lowers the price in Indonesia to $220 per VCR and all imports now come from Japan. Of the original 150,000 VCRs bought earlier, 40,000 are now produced domestically and 110,000 imported from Japan. The 60,000 additional imported units replace higher-cost domestic units. This is trade creation and yields a gain of area 3 for Indonesia. The other 50,000 units replace cheaper Korean units. This is trade diversion and leads to a loss of area 1 for Indonesia.[14]

There is one more source of efficiency effect which, in the spirit of Viner, we have not identified so far.[15] The reduction in price from $300 to $220 per VCR expands the consumption of VCRs and brings the marginal benefit from consumption closer to the marginal cost of it. This generates a further welfare gain represented by area 4. The net effect of the FTA is positive or negative as the sum of areas 3 and 4 is larger or smaller than area 1.

2.2 A Puzzle: Why form an FTA when Nondiscriminatory, Unilateral Liberalization is Superior?

In the small-country context we have chosen in the previous subsection, it is easy to see that Indonesia can improve its welfare unambiguously relative to the initial as well as the post-

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[14]Observe that all of tariff revenue represented by areas 1 and 2 disappears. But area 1 is recaptured by consumers via a lower price of VCRs.

[15]Viner implicitly assumed a completely inelastic demand. This practice is surprisingly common in policy analyses which often ignore the changes in demand.

FTA equilibrium by liberalizing trade unilaterally on a nondiscriminatory basis. For example, if Indonesia lowers its tariff on both Japan and Korea to 10%, Korea continues to outcompete Japan. The tariff inclusive price of Korean VCRs is now $220; we obtain the same equilibrium as under FTA but without any trade diversion. Indonesia is able to collect import duties represented by areas 1, 5, and 6 in addition to the efficiency gains represented by areas 3 and 4 in Figure 1; the country gains relative to the initial as well as FTA equilibrium.

The proposition that unilateral, nondiscriminatory liberalization is superior to an FTA is robust to a variety of modifications provided we continue to make the "small union" assumption (i.e., the countries forming the union are too small to influence the terms of trade in the outside world). Three such modifications may be mentioned. First, in the Indonesia-Japan example above, suppose we introduce increasing marginal costs of production in Japan. In this case, Indonesia is likely to import VCRs from both Japan and Korea before as well as after the FTA. This will not change our conclusion, however. Indonesia's welfare under a nondiscriminatory liberalization will remain unambiguously higher than under an FTA.

Second, suppose we now recognize the fact that as a part of the FTA, Japan also lowers its tariffs on Indonesian goods. This will surely create benefits for Indonesia which are not available through unilateral liberalization. While this is true, we also know from our earlier analysis that the gains to Japan from lowering its tariff are higher if it does so on a nondiscriminatory basis. Indeed, it can be shown that the extra gains to Indonesia from preferential liberalization by Japan are less than the extra benefits to Japan from a nondiscriminatory liberalization. Put differently, though one country can enjoy a higher real income under an FTA than under a nondiscriminatory liberalization, the combined income of the partners will be lower under the former scenario. The country benefitting more from an FTA than nondiscriminatory liberalization cannot afford to bribe the other country into forming an FTA.

Third, suppose there are scale economies. Here again, as long as we maintain the small union assumption, nondiscriminatory liberalization dominates. The simple point is that with declining costs, if it is at all profitable for the country to produce the good subject to economies of scale, it should expand production all the way to the minimum cost point, consume what it can consume domestically, and export the residual to the outside world. To exploit scale economies, one does not need a "partner country's" market when the world market is there.

2.3 The Attraction of Regionalism: Some Answers

In spite of this dominance of unilateral, nondiscriminatory liberalization, how do we explain the attraction of regionalism today? For this, we must look beyond the standard small-country, small-union model. A number of modifications can be considered.

First, the small union assumption may not be valid. Thus, in our Japan-Indonesia example, the price at which Korea sells VCRs to Indonesia may depend on the number of VCRs sold. In response to a switch in demand from Korea to Japan due to preferential liberalization, Korea may lower its price to remain competitive in the Indonesian market. The terms of trade for Indonesia improve. Likewise, the price paid by Japan to extra-union suppliers may decline in response to the preferential access offered by it to Indonesia. This improvement in the terms of trade yields benefits not available through nondiscriminatory, unilateral liberalization.

Second, there is the closely related issue of access to the world markets. In a world infested with voluntary export restraints, administered protection, and a strong tendency for the formation of trading blocs, the difference between discriminatory and nondiscriminatory liberalization may be blurred. In the limit, we can imagine an outside world which does not trade externally at all. Then trade restrictions on the outside world are vacuous and it does not matter whether liberalization is discriminatory or nondiscriminatory. What is important is that liberalization be undertaken on a region wide basis and for this regional integration may be a powerful instrument. By bringing countries together to liberalize simultaneously, the regional approach can help solve the same prisoners' dilemma at the regional level that the GATT helps solve at the multilateral level.

Third, once we admit the limits on access to the world market, large gains from regional integration are possible if scale economies are present. Mutual liberalization by countries in the region will then provide room for expanded scale of operation, specialization, and plant rationalization. Regional opening may also offer gains from increased product variety.

Fourth, for smaller economies of the region, a regional arrangement with Japan can guarantee future access to a large, developed-country market. Under normal circumstances, this may not be important but in the event the EC and Americas continue to travel down the road leading to inward-looking blocs, such access may be crucial. From the viewpoint of entire East Asia, the threat of a regional arrangement may also serve to deter the EC and Americas from turning more inward.

Fifth, even when the rest of the world is open, there may be goods which are tradable only regionally. For these goods, a simultaneous liberalization through a regional approach can bestow gains for the same reasons as multilateral trade liberalization. Trade in electricity between neighboring countries is one such example. Under a broad interpretation, we can include cooperation on projects of regional interest--development of roads, dams, and water resources--in this category. A concrete example is the recent agreement, signed in 1991, under which Singapore will cooperate with Indonesia to develop water resources in the latter's province of Riau in return for guaranteed water supply for 50 years.

Sixth, unilateral liberalization, even if superior to the regional route in principle, may be politically infeasible. At political levels, there is a strong mercantilist bias in trade-policy thinking. Any reduction in trade barriers is viewed as a concession given to foreigners. Under this mind set, unilateral import liberalization is a free gift to the world while liberalization via the regional route brings concessions from partners. In practice, This factor seems to become particularly important when the level of protection is not wildly high. Mexico and Chile have been able to liberalize imports unilaterally to a considerable degree but further liberalization seems to require a regional context. In East Asia, countries such as Malaysia, Thailand, Korea and Philippines have also been successful in unilateral liberalization up to a degree but may require a regional context for further import liberalization.

Seventh, regional integration can go far beyond trade liberalization. In East Asia, intra-regional labor mobility, direct foreign investment, and financial-capital flows will play an increasingly important role in the forthcoming years. To the extent that harmonization of policies across countries can help facilitate such movements, regional integration can offer gains not available through either unilateral or global actions.[16]

[16]Melo, Panagariya, and Rodrik (1993) develop a formal model in which regional integration leads to "trade" in institutions between partner countries. Among other things, they show that this type of integration may serve to dilute the power of lobbies and help create superior institutions.

Finally, regional integration may be an instrument of promoting harmony among participating countries. The most dramatic example of this is the EC which has united two former enemies--France and Germany--in such a tight economic union that another war between them is unthinkable. In East Asia also, a regional arrangement can help reduce political tensions and promote political harmony among former enemies (e.g., China and Japan; China and Taiwan; Republic of Korea and Japan; and North Korea and the Republic of Korea).

3. Should East Asia Go Regional?

Having considered the possible costs and benefits of regionalism, we are now in a position to confront directly the central question of this paper: Should East Asia go regional? I will argue presently that in spite of the many possible gains just listed, both economics and politics appear against a discriminatory bloc in East Asia. Historically, as summarized in Section 1, East Asia has benefitted greatly from an open world trading system. The region's future interests will continue to be served best by a strategy which ensure an open world trading system.

Does this mean that regionalism has no place in East Asia? Not necessarily. For the unique circumstances of East Asia, a regional approach which is nondiscriminatory may still hold some promise. The success of this approach is predicated upon the extent of trade expansion in Japan in the years to come. If a substantial expansion takes place, simultaneous trade liberalization by other major players in the region such as China, Republic of Korea, Thailand and Indonesia can become instruments of containing unilateralism and lobbying pressures in the United States and breathe a new life into the multilateral trade negotiations.

In the following, I evaluate the role of regionalism at three levels. First, I examine closely the only serious attempts at preferential trading, the ASEAN which has recently announced plans to form the ASEAN Free Trade Area (AFTA). I suggest that the costs of such sub-regional schemes far outweigh their expected benefits. Second, I evaluate the case for a formal East Asian bloc along the lines of the EC or North America and conclude that though the threat of such a bloc may serve some purpose, its actual execution is a highly risky proposition. Finally, I evaluate the case for simultaneous, MFN style, nondiscriminatory liberalization on a region-wide basis. I argue that a case for such a regional approach "may" exist, though it is far from airtight.

3.1 Sub-Regional Groupings: ASEAN and AFTA

I divide the discussion in this sub-section into three parts. Sections 3.1.1 and 3.1.2 describe the evolution of ASEAN in trade area and plans for the AFTA, respectively. Section 3.1.3 evaluates the case for promoting formal regional integration in the sub-region.

3.1.1 ASEAN: The Disappointing Past[17]

Major developments in ASEAN are associated with four Summits attended by the heads of states of the member nations. The First Summit, held in August 1967, created the association through the ASEAN Declaration. The Second Summit produced the ASEAN Concord of February 24, 1976 which paved the way for economic cooperation among member nations. The Third Summit attempted to strengthen the cooperation through Manila Declaration of December 15, 1987. Finally, the Fourth Summit concluded with the Singapore Declaration of January 28,

[17]For details on ASEAN until 1987, see Sopiee, See and Jin (1987). For more recent developments, see Pangestu, Soesastro and Ahmed (1992) and Ariff and Chye (1992). In the following, I draw freely on Pangestu et al.

1992 which announced plans for an ASEAN Free Trade Area (AFTA). In-between, numerous ministerial meetings have taken place to give shape to the broad intentions in the declarations signed at the summits.

Areas of economic cooperation in ASEAN are wide ranging. They include trade, industry, energy, tourism, forestry, minerals, food and agriculture, and finance. In the following, I will focus primarily on three programs which fall in areas of trade and industry and are designed to promote preferential trade and investment within the region: (i) Preferential Trading Arrangements (PTA) introduced in 1977; (ii) ASEAN Industrial Joint Ventures (AIJVS); and (iii) ASEAN Industrial Complementation (AIC) schemes.

(i) Preferential Trading Arrangements (PTA). The PTA provides for tariff preferences, referred to as the margin of preference, for intra-ASEAN trade.[18] Till the announcement of AFTA, the rules of origin required that the ASEAN content of a product be 50% or more to qualify for tariff preference. On a case by case basis, this limit could be reduced to 35%. Initially, items for tariff preferences were negotiated on a product by product basis. In 1980, an across the board minimum margin of preference was introduced for imports above a certain value but, because countries were allowed to have exclusion lists, the provision had little effect.

In 1987, preferences actually granted under the PTA were minimal. Based on the 50% (or 35% if agreeable) ASEAN content requirement, there were 12,783 items on the PTA list. Out of these eligible items, only 337 or 2.6% items were actually granted tariff preferences.

[18]The PTA was introduced initially thorough the Agreement on ASEAN Preferential Trading Arrangements (APTA) signed in Manila on February 24, 1977 and strengthened later in the Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements, signed in Manila on December 15, 1987.

Furthermore, only 19% of the total value of imports of these items enjoyed the preferential tariff. Table 9 provides details on individual countries.

At the Manila Summit in 1987, the member countries adopted changes aimed at strengthening tariff preferences. The countries agreed to shorten the exclusion list to 10% of the eligible items on the PTA list by 1992 (1994 in the case of Indonesia and Philippines). They agreed to reduce the value of imports on the exclusion list to 50% or less of intra-ASEAN trade by the same date. There was also an agreement to freeze the level of nontariff barriers and to negotiate reductions in them.

Systematic data on the progress towards achieving these goals is not available. But from what is available, progress appears to have been less than sparkling. Table 10 shows Indonesia's total exports to and imports from ASEAN as well as those enjoying tariff preferences under PTA for years 1987 to 1989. The share of Indonesia's exports to ASEAN which benefitted from tariff preferences rose from a 1.4% in 1987 to 3.5% in 1989. Similarly, Indonesia's imports entering under preferential tariffs as a proportion of its total imports from other ASEAN countries rose from 1.2% in 1987 to 1.6% in 1989.

(ii) ASEAN Industrial Joint Ventures. Introduced in 1983, the AIJV program is aimed at promoting intra-ASEAN investment among private investors. The main incentive is a tariff preference. The countries participating in an AIJV project charge only 10% of their prevailing tariff (i.e., give a 90% margin of preference) on goods produced by and imported from the latter. There have to be at least two ASEAN countries participating in the project. Foreign participation in equity is allowed but ASEAN participants must own at least 40% of the equity.

To receive the tariff preference, the product must be first included in the list of AIJV products. The process of getting a new product included in the list is cumbersome. To-date, only 26 products have been granted the AIJV status. These include automotive components and parts, mechanical power rack and steering systems, chemicals, enamel, food products, etc.

It is not clear how much extra investment has been generated by this scheme. There is only one AIJV having equity participation by all ASEAN countries. Most AIJVs have foreign equity participation. Projects under the scheme are concentrated largely in Malaysia and Thailand. In some cases, AIJVs have experienced difficulties in getting tariff preferences from participating countries. Sometimes, participating countries want a quid pro quo under which they ask the project to import goods from them.

(iii) ASEAN Industrial Complementation (AIC) Scheme. The AIC scheme was introduced in 1981 with the objective of dividing different production stages of an industry among ASEAN countries. The idea was to avoid duplication and take advantage of scale economies. The first AIC scheme, involving automotive parts and components, was a failure due to differences in brands and types of vehicles among the ASEAN countries. Intra-ASEAN trade under the scheme remained minimal.

Recognizing the brand incompatibility problem in the first scheme, The second AIC scheme was based on Brand to Brand Complementation (BBC) in the automotive sector. The scheme lets the private sector determine the division of production across member countries. Products of the BBC firms automatically receive a 50% tariff preference provided they satisfy the PTA's rules of origin. In 1991, the BBC was extended to non-automotive products.

Brunei, Indonesia and Singapore chose to stay out of the BBC scheme. Brunei and Singapore do not have an automotive industry while Indonesia wanted to protect its own automotive industry. To-date progress under the BBC scheme has consisted of approval of eight packages involving Mitsubishi, Volvo, Mercedes Benz, Nissan, Toyota, DAF group from Belgium, and Renault.

3.1.2 AFTA: Time for Serious Business?

Negotiations for the NAFTA and for a Single European Market in early 1990s swung the ASEAN members into action. At the Fourth ASEAN Summit in Singapore, on January 28, 1992, the member nations signed a framework agreement to establish and participate in the ASEAN Free Trade Area within 15 years, i.e., by the year 2007. Though the "framework" agreement is less binding than a treaty, member nations expect it to serve as an instrument of speeding up the integration process in the region.

The key vehicle for implementation of the AFTA is the Common Effective Preferential Tariff (CEPT) which will be applied to goods originating from ASEAN member States. The difference between the CEPT and PTA is that the former is slightly more encompassing. The margin of preference under the PTA is granted only by the nominating country whereas that under the CEPT is granted by all members. The ASEAN content for qualifying for the CEPT is 40%, lower than the PTA's 50%.

The AFTA covers all manufactured products, including capital goods, processed agricultural products and those products falling outside the definition of agricultural products, in the CEPT scheme. Products for the CEPT scheme are identified on a HS 6-digit sectoral level. Exceptions at the HS 8/9-digit level are permitted. The Third AFTA Council, held on

December 11, 1992, identified a total of 38,680 items for inclusion in the CEPT. These items represent an average of 88% of the total tariff lines of the ASEAN member states. The coverage ranges from 80% to 98% among the six member countries. A total of 3,321 items have been identified for exclusion on a temporary basis. These items are to be reviewed at the end of eight years.

The Third AFTA Council also drew detailed schedules of reductions in CEPTs for all member countries. The Framework Agreement had identified 15 products as Fast Track products for a more speedy liberalization.[19] For these products, tariffs above 20% are to be reduced to 0-5% by January 1, 2003 while those at or below 20% are to be reduced to 0-5% by January 1, 2000. The remaining products are on the Normal Track. Products in this category with tariff rates 20% or less are to be reduced to 0-5% by January 2003 while those with tariff rates above 20% are to be first reduced to 20% by 2003 and then to 0-5% by 2007. According to the schedules drawn by the Third AFTA Council, except Malaysia, no member plans any tariff reductions in the first two years of AFTA and even reductions planned by Malaysia are very small.

The AFTA agreement also calls for a removal of quantitative restrictions on products as soon as they are subject to the CEPT. It also provides for the elimination of other non-tariff barriers over a period of five years after the product is brought under the CEPT. This provision is stronger than the PTA which allowed members to maintain their quantitative restrictions.

[19]These products include vegetable oils, cement, chemicals, pharmaceutical, fertilizer, plastics, rubber products, leather products, pulp, textiles, ceramic and glass products, gems and jewellery, copper cathodes, electronics, and wooden and rattan furniture.

3.1.3 Evaluating AFTA: A Wrong Turn

The sudden upsurge in FTAs around the world notwithstanding, on balance, the AFTA is likely to contribute only marginally to prosperity in the region. Indeed, the net effect of it may well be negative. As a forum for promoting political and cultural harmony and as an instrument of encouraging cooperation on projects of regional interest, the ASEAN has served the member countries well. But the preferential trading and investment promoted by the ASEAN and planned by the AFTA are likely to be counterproductive. Several points may be noted.

(i) Small Internal Markets. The case against the AFTA lies primarily in the small size of the regional market. Because Singapore already has complete, nondiscriminatory free trade, the AFTA can, by definition, involve no greater access to its market than what exists currently. Therefore, the gains from AFTA, if any, must come from integration of the remaining five countries' markets. But markets in these countries are quite small in relation to the world. As shown in Table 2, the share of ASEAN 4 (the ASEAN exclusive of Singapore and Brunei) in the world GDP has declined from a low 1.5% in 1980 to 1.3% in 1990. The share in the world exports is bigger--2.4% in 1990--but not big by any stretch of imagination. If we include Singapore in our calculations, 1990 shares of the ASEAN in the world GDP and exports, respectively, rise to 1.43% and 3.87%. These ratios are still quite small so that the possibility that the most efficient producers are located outside the region is high.

(ii) Low Levels of Intra-Regional Trade. An analysis of intra-regional trade flows tells us a similar story. Tables 6 and 8, respectively, show destinations of exports and origins of imports of the ASEAN countries. Because Singapore is already a free-trading country, exports to that country are shown separately from the remaining ASEAN countries. Remarkably, the share of exports of Thailand going to ASEAN 4 has declined from 8.5% in 1980 to 3.9% in 1990 and that of Singapore has remained constant around 21%. Shares of other countries, Indonesia, Malaysia, and Philippines, show a rising trend but their levels are small. For three out of four ASEAN 4 countries, the share of exports going to Singapore has been larger than that going to the remaining ASEAN countries for all the three years shown in Table 5. For the remaining one, Philippines, we do not have data for 1990 but for 1985, its exports to Singapore at 5.3% are not much smaller than those to the ASEAN 4 (6%).

Turning to imports, the story is even more disappointing. As shown in Table 7, the proportion of imports of ASEAN 4 countries coming from other ASEAN 4 countries ranged from 2.6% for Indonesia to 4.3% for Thailand in the year 1990. The proportion has declined over the period 1985-90 for all three countries for which data are available. Within ASEAN, Singapore is by far the largest importer of ASEAN 4 goods. Throughout 1980s, Singapore purchased 16 to 17% of its imports from the ASEAN 4. Malaysia alone contributed approximately 14% of Singapore's imports reflecting the special relationship between the two countries noted earlier.

(iii) Higher levels of Protection in Bigger Countries. Within the ASEAN 4, Indonesia and Thailand together accounted for approximately 70% of the region's GDP and 56% of its imports from anywhere in 1990. These are also the countries which are most protected within the region. Gains from discriminatory liberalization, if any, must come primarily from liberalization in these countries. But they do not plan to undertake any liberalization in the first two years of the AFTA. Therefore, the expected impact of the AFTA--positive or negative--in the first two years will be minimal. Indeed, in the case of Indonesia, nondiscriminatory liberalization through unilateral reforms--a superior strategy from its viewpoint--is likely to stay ahead of the plans under the AFTA.

Closely related to this point is the issue of distribution of gains from preferential liberalization when such liberalization is undertaken. It stands to reason that the arrangement will benefit Malaysia and Singapore at the expense of other countries. This is because Malaysia and Singapore have either no or low tariffs to begin with. Therefore, the potential for discriminatory liberalization by them is minimal. Much of the liberalization will have to come from the more protected Indonesia, Philippines, and Thailand. This means that the terms of trade for Malaysia and Singapore will improve. The tariff revenue collected on goods exported by these countries to Indonesia, Philippines and Thailand will disappear to the extent of liberalization and become a part of the former's profits on export. There will not be a corresponding gain for Indonesia, Philippines and Thailand on goods exported to Singapore and Malaysia because the latter have relatively few high tariffs to liberalize.

These lopsided distributional effects may well explain why the progress on preferential liberalization in the region has been outstripped by unilateral, nondiscriminatory liberalization. For example, while Indonesia and Philippines have lowered trade barriers substantially during the 1980s as a part of their trade reform policies, they have been generally reluctant to offer tariff preferences under the PTA. In July 1992, Indonesia announced a list 250 tariff cuts but 90% of these were on different types of batik cloth produced in Indonesia only. The distributional conflict is illustrated well by a remark made by the former foreign minister of

Indonesia, Dr. M. Kusumaatmadja, at a meeting in 1992 to celebrate the 25th anniversary of the ASEAN:[20]

> "Singapore and Malaysia are always telling us to lower tariffs and duties and let their goods into the country. But in return, how about the free movement of labor? We will take your goods if you will take our surplus labor supply. When they hear this and think about all those Indonesians coming to work in their countries, then they say, 'wait a minute, may be it's not such a good idea'."

In the past, to lengthen their lists, member countries have gone so far as to include snow ploughs among items to receive preferential tariffs! There are also instances of tariff preferences on zero-tariff goods.

Assuming net benefits from preferential liberalization, in principle, gainers could compensate the losers. But in practice, compensation schemes tend to be distortionary and the AFTA has been wise to stay away from them. Compensation schemes adopted by regional arrangements in Africa proved highly distortionary.[21] In NAFTA, no compensation has been offered by the United States to Mexico which, on conventional criteria, is likely to lose from the arrangement.[22] Only the EC has been successful in affecting large transfers to its poorer partners as a part of the Southern Enlargement. This has been largely due to a very strong commitment on the part of the original members to unify Europe into a single market.

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[20]Financial Times, January 26, 1993.

[21]For example, see Foroutan (1993).

[22]The gains Mexico expects from the NAFTA are credibility to its reform and guaranteed access to a large market should the world divide into trading blocs. To the extent that Mexico's tariffs are far higher than those in the United States, the NAFTA is likely to worsen its terms of trade. On top of that, Mexico must adopt the higher environmental standards of the United States and lose competitiveness.

(iv) A Comparison with NAFTA. Though the inspiration to turn the PTA into AFTA has come, at least in part, from the EC and the NAFTA, it has little in common with the latter. Both EC and NAFTA are large markets. Therefore, from the viewpoint of securing markets and ensuring that the internal sources of supply are not much more costly than external sources, they can be defended to some degree. By contrast, the regional market of the AFTA is small and comes uncomfortably close to the markets in some of the regional associations in Latin America. Member countries, though richer than those in South Asia and Africa, are still classified as "developing" and the scheme has the flavor of "South-South" rather than "South-North" or "North-North" arrangements. The richest country in per-capita terms, Singapore, is too small in absolute terms to serve as the "center" country of the regional scheme as the United States is expected to do in the NAFTA. The inevitable conclusion is that an effective regional trading arrangement cannot be designed without the participation of Japan, an issue I turn to next.

3.2 An East Asian Trading Bloc? No.

There are two main issues which must be addressed in considering the case for a bloc consisting of all major players in East Asia: (i) Is the bloc economically desirable; and (ii) Is the bloc feasible? I will argue below that the answer to the first question is at best uncertain while that to the second one is negative.

(i) Is a Trading Bloc Economically Desirable? The economic desirability of an East Asian bloc is difficult to assess. This is because the effects of such a bloc go well beyond simple efficiency effects discussed in Section 2. As shown in Table 2, the region accounts for approximately one fifth of the world's GDP and exports. Any major actions in the area of international trade at the region wide level which discriminate against the rest of the world will lead to repercussions in and perhaps retaliation from the rest of the world. Without being able to predict those reactions, it is difficult to estimate the costs and benefits of forming a region wide bloc.

The paramount objective of East Asia's regional trade policy has to be to ensure an open world trading system. Despite some redirection of trade towards itself in recent years, East Asia ships two thirds of its exports to the rest of the world. There is little doubt that the phenomenal growth of East Asia during the past three decades has been facilitated greatly by relatively open world markets. Almost without exception, studies of the NIEs draw a direct connection between growth in exports and that in the GDP. More recently, Indonesia, Malaysia, Thailand and China have been repeating the experience of the NIEs.

This suggests that the case for an East Asian bloc should be evaluated primarily, not on the basis of static gains including those arising from an improvement in the terms of trade, but in terms of its impact on the world trading system. If a regional approach is to be pursued, it should help keep the world markets open. There are two arguments in favor of a discriminatory regional bloc which deserve a close scrutiny.

First, an East Asian bloc may serve as a deterrent to the formation of closed trading blocs around the world. According to this argument, the world is already dividing into blocs. To ensure that the blocs do not become overly protective of their own markets and limit East Asia's access to them, East Asia should be united and be in a position to retaliate. Unilateral actions such as those taken by the United States under its Super 301 provisions will also be harder to take if East Asia is united.

Second, currently, the GATT talks have been stalled partly because of a large number of participants and the free-rider problem associated with it. Larger countries feel that trade concessions negotiated among them become automatically available to smaller countries through the MFN clause of the GATT. Negotiations with the latter are difficult because their numbers are large and each of them is individually too small to make such negotiations worthwhile. Therefore, if the world can be first divided into a small number of blocs, it will be easier to organize future GATT negotiations.[23] Regional blocs could free up trade internally while the GATT process, once freed from the free-rider problem, can serve to bring down the barriers between blocs rapidly and with greater certainty. Proponents of the argument suggest that one reason why the past GATT rounds were so successful is that the United States could deal with the EC as a single unit. According to this view, if East Asia is turned into a bloc and the Americas into another, they together with the EC can move the world towards free trade faster.

Both of these arguments have some merit but are highly contentious. Regarding the first argument, critics note that countries organized into a bloc enjoy more market power than they do individually. Therefore, in principle, there is nothing to prevent blocs from raising rather than lowering trade barriers. The deterrence role of blocs is good only so long as the threat is not carried out. Once a threat is carried out and trade war breaks out, retaliatory actions are likely to be larger with than without blocs.

[23]The argument can be found in Summers (1991) and Krugman (1993).

As for the second argument, critics note that small numbers do not necessarily mean faster progress.[24] The EC process began in 1957 and is still working towards a "Single Market". In the meantime, the EC's nontariff barriers have proliferated: the coverage of these trade restrictions has expanded five fold from 1966 to 1986.

(ii) Is a Trading Bloc Feasible? Though the economic desirability of a trading bloc in East Asia is difficult to assess, its feasibility--or lack thereof--is more predictable. Both internal circumstances of the region and possible retaliatory actions from outside--particularly the United States--make the formation of an East Asian free trade area an unlikely event.

Internally, there are at least three inter-related factors at work against a region wide FTA. First, historically, the major players in the region have been political rivals. Though time, trade, and intra-regional investments have gone a long way towards bringing the former enemies closer, they still do not appear ready to form a free trade area with one another. In this respect, the situation in East Asia is fundamentally different than in Western Europe after the Second World War. Then, backed by the United States, for economic as well as geopolitical reasons, Europeans were able to move into treaties establishing first the European Coal and Steel Community and later the European Community. Today, there are no similar pressures on Japan. Nor are the other economically smaller nations such as Korea and China expressing eagerness to form an FTA with Japan.

Second, the countries in East Asia have very different levels of protection and are at very different stages of development. This makes the distribution of gains from an FTA rather

[24]For example see Bhagwati (1993) and Winters (1993). A summary of the debate can be found in Melo and Panagariya (1992).

uneven. With discriminatory liberalization under an FTA, poorer countries which are also more highly protected are likely to lose or gain less than their relatively open and richer counterparts. This raises the specter of compensation which, as noted in the context of the ASEAN, is a barrier not easily overcome.

Third, the number of countries in the region is large which makes the task of far-reaching negotiations required for an FTA a daunting task. We saw earlier how difficult it has been for even six ASEAN countries to make progress towards the AFTA. It has taken the countries 25 years to reach the "framework agreement" and progress on serious liberalization is still out of sight. In this background, it is not clear how disparate countries such as China Japan, Korea and the members of ASEAN can be engaged in a dialogue which will lead to a free trade area among them.

The external factors at work against an East Asian FTA are even more formidable. Because of perceptions that its markets are de facto closed to outsiders, Japan has been a persistent target of market-opening actions by the United States during the last two decades. These actions have included voluntary export restraints, structural impediments initiative, and Super 301 threats. Smaller countries in the region such Korea and China have also been subject to actions under Super 301. Initiatives by these countries for a free trade area, which can potentially divert trade from the United States, are almost certain to be met with retaliation by the latter.

From the viewpoint of smaller nations, this external environment is quite different from that faced by Mexico in negotiating the NAFTA. Apart from the fact that, with the United States as the other negotiating party the threat of overt retaliation did not exist, Mexico was simply not very vulnerable to such actions. In 1990, Mexico exported 71% of its goods to North America and only 13% to Western Europe and 6% to East Asia. For the latter regions, imports from Mexico amounted to approximately a half percent of their total imports.

The situation is dramatically different for countries such as China and Korea. They not only face an environment which is hostile to an FTA in East Asia but are also individually very vulnerable to actions against them by the United States. In 1990, Korea sold a quarter of its exports to the United States. China's direct exports were not as large but once reexports through Hong Kong are taken into account, it too sent a quarter of its goods to the United States. With such large concentration of exports in the United States, risks for Korea and China of an FTA which the United States opposes are immense. This, in turn, suggests that an East Asian FTA is not a feasible proposition in the near future.

3.3 Nondiscriminatory, Open Regionalism? Maybe.

Having argued that sub-regional grouping and trading blocs which promote discriminatory liberalization are not worth the effort required to create and sustain them, I now come to the "Maybe" part of the title of this paper. I turn to the discussion of an "open" regional approach centered around a GATT-style, MFN-based nondiscriminatory liberalization. I argue that though this regionalism has certain advantages over discriminatory approaches, it, too, has serious limitations.

Before I consider the pros and cons of nondiscriminatory liberalization, let me take up briefly another type of open regionalism which has been suggested as a way to preempt the world from turning into inward-looking blocs. Bhagwati (1993), Cooper (1993), and others have suggested that an effective way to keep regional blocs from turning inward and ensuring that they eventually lead to multilateral free trade is to encourage them to have an open membership. Any country wishing to accept the obligations of the bloc membership should be allowed the privileges offered by it. Is such a bloc in East Asia feasible and desirable?

Without going into the desirability issue, let me simply note that the feasibility of an open but discriminatory bloc is highly questionable. Internally, one must confront all the problems noted in the previous sub-section. Externally, it may appear that the United States will be more tolerant of a bloc which is willing to accept it as a member. But the reality is otherwise. The United States is not ready yet to join in a free trade area with East Asia and without that, from its perspective, de facto there is no difference between an open and a closed bloc.[25]

This brings us to the remaining option: nondiscriminatory regionalism whereby countries in the region will pursue a GATT type liberalization.[26] The key element distinguishing this approach from a regional bloc will be nondiscriminatory nature of liberalization. The countries in the region will come together at a common forum and, very much in the spirit of the various GATT rounds, negotiate reductions in trade barriers. Any concessions made by a country to another will be extended automatically to all GATT members. In the following, I offer a detailed discussion of the positive as well as negative side of this approach.

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[25] The U.S. position that it will neither join East Asia in an FTA nor allow the latter to form one on its own and also pursue NAFTA is obviously devoid of any internal logic. But this is the reality which East Asia cannot ignore.

[26] To my knowledge, a proposal to this effect has been made for the first time in a recent World Bank (1993) report. Petri (1992) offers a similar proposal but makes the United States, Australia and New Zealand a part of the overall scheme. Because intraregional trade among these countries and East Asia is so intense, the economic case for this proposal can be hardly disputed. But the same factors which make an open trading bloc a la Bhagwati and Cooper politically infeasible also cast a serious doubt on the workability of this proposal.

3.3.1 Open Regionalism: The Positive Case

(i) No Trade Diversion. Because tariff reductions are nondiscriminatory under this approach, by definition, there can be no trade diversion. In terms of our VCR example, if Indonesia lowers its tariffs on Japanese VCRs in return for a tariff concession from Japan, the same reduction is extended to Korea and all other suppliers of VCRs. The reduction in tariff then benefits Indonesia's consumers rather than Japanese VCR producers.

A lack of trade diversion takes away one major obstacle in the way of a discriminatory bloc: Countries with high initial tariffs need not feel that they will lose as a result of liberalization. Any gains from liberalization will accrue to consumers inside the country rather than the partner country. Problems mentioned earlier regarding compensation will simply not arise.

(ii) External Constraints. This regionalism will certainly face a much less serious challenge from the United States. Because the liberalization is nondiscriminatory, it will improve the U.S. access to East Asia's markets as well. Indeed, the negotiations could go a long way towards answering the U.S. complaints about a lack of openness of markets in East Asia in general, and Japan and China, in particular.

More importantly, liberalization at the regional level may help alleviate two major problems which provide ammunition to the advocates of unilateral trade-policy actions in the United States against Japan and other trading partners. First, to the extent that such liberalization is likely to shift the region's exports away from the United States and towards East Asia, some of the current competitive pressure on the U.S. industry may be relieved. At the least, a decline in Japan's share in the U.S. market and possibly a rise in the share of domestic producers there will weaken the lobbies' case for trade-policy actions against the former. Second, the possible shift in exports towards East Asia may alleviate trade deficits of the United States with Japan and China. Because the overall trade deficit is a macroeconomic phenomenon governed by investment-savings gap, this redirection may not help the <u>total</u> U.S. trade deficit. But it may help lower <u>bilateral</u> trade deficit. If so, nondiscriminatory liberalization will weaken considerably the case for unilateral actions by the United States.

<u>(iii) Low Adjustment Costs.</u> Because liberalization will take place simultaneously in all the major countries of the region, this approach will help minimize the costs of adjustment. In the GATT style, liberalization will be in areas of mutual interest. Therefore, countries will improve export prospects at the same time that they subject their import competing industries to competition from abroad. In contrast, if liberalization is unilateral or, worse still, in response to Super 301 type of threats from the United States, adjustment costs will be higher. In the spirit of the GATT, it may also be possible to allow the liberalization process to be spread over a period of, say, 10 years. This will further smoothen the path of adjustment.

<u>(iv) East Asia's Role in World Economic Affairs.</u> In recent decades the United States has become what Jagdish Bhagwati calls a Diminished Giant. Simultaneously, East Asia, particularly Japan, has emerged as the major economic power in the world. While other parts of the world have suffered from severe recession, this region has grown at healthy rates.

Gradually, commensurate with their current economic weight and future potential, Japan and the Greater China region (including China, Hong Kong and Taiwan) must assume the leadership role in the world economic affairs. Japan has already emerged as a major donor country in the world. Within East Asia, it now enjoys the same central role as the United States in the Americas and Germany in the EC. It provided more than half of the official development assistance commitments to East Asia in 1992 against only 6% from the United States. More than 30% of the region's net direct foreign investment in 1990 came from Japan compared with 10% from the United States. Parallel with these developments in Japan, China is rapidly becoming a major engine of growth in Asia. According to a recent World Bank report, Greater China has become the world's 'fourth growth pole' after Europe, North America and Japan. The report notes that imports into Greater China region are already two-thirds as much as Japan and will surpass the latter by the year 2002 if growth continues at the present rate.[27] Import liberalization by China in the years to come will further enhance that country's role in global economic affairs. Region wide liberalization could then serve as a stepping stone to the eventual leadership role for East Asia in general and Japan and China in particular.

(v) Market Driven Integration. Nondiscriminatory liberalization in the region may also reinforce the market driven integration which has been taking place in the region during the past decade. For example, liberalization in China is sure to reinforce the trade and investment relationships in Greater South China. Likewise, liberalization in Indonesia may help the growth process in the SIJORI region. To the extent that this liberalization will reiterate loudly East Asia's commitment to outward orientation, direct foreign investment will flow into the region in increased volume.

3.3.2 Open Regionalism: The Negative Case

The discussion up to this point makes nondiscriminatory liberalization almost too good to be true. And it is. Though, as just described, there is much to be gained from this type of

[27]See the article by Laurence Zuckerman in the Wall Street Journal, May 17, 1993.

liberalization in the long run, the short to medium run economic effects are not favorable. This means that it will be difficult to mobilize support for implementation of the scheme. Let me elaborate.

As shown in Table 11, the existing levels of tariffs, at least in Japan, are relatively low. This means that potential gains from lowering this most transparent barrier to trade in Japan are limited. Indeed matters are worse than Table 11 reveals. Japan gives very extensive trade preferences under the GSP to its East Asian trading partners. For example, in the case of Korea, 88% of the Japanese tariff lines facing it are either zero or below the MFN level. For approximately two thirds of the tariff lines, the GSP gives Korea a duty free access. A similar pattern applies to other countries.[28] This means that if Japan lowers its tariffs in a nondiscriminatory fashion, developing East Asian countries will lose the tariff preferences they currently enjoy. This is most likely to be a losing proposition for them.

There does not appear to be a substantial scope for gains from a reduction in tariffs in other countries either. Because tariff levels across countries are highly variable, the scope for quid pro quo is limited. Thailand, Indonesia and arguably China have the highest levels of tariffs. At the other extreme, Singapore and Hong Kong have virtually no tariffs while Japan imposes very low tariffs on its East Asian partners. In-between we have Korea and Philippines with tariffs generally below 20%. Given this cross-country structure of tariffs, it will be rather difficult to engineer an MFN style liberalization.

[28]Singapore pays a positive MFN tariff in only 8% of the cases. At 15%, among the ASEAN countries, Indonesia has the largest share of tariff lines with positive MFN rates.

The picture with respect to nontariff barriers is similar. Identifiable nontariff barriers are limited. We do not have information on all countries but in the cases where it is available, these barriers are not extensive. Japan employs few formal nontariff barriers. Among the countries shown in Table 4, Indonesia has the highest level of nontariff barriers. But even in this case, only 16% of the country's import items are subject to such barriers. In terms of formal barriers, perhaps China is most protective. But in reality, China's imports have risen sharply in recent years suggesting that its import regime is freer than may be suggested by formal restrictions.

This discussion leads to the conclusion that the only significant trade liberalization in the region may come from lowering the so-called "informal" barriers to trade that Japan is often alleged to have. In order to bring to the negotiating table the countries with high formal trade barriers, only Japan can make attractive concessions. But the problem with "informal" barriers is that either they may not exist or they are invisible. It is simply not clear how countries can negotiates on these barriers.

It is possible that purely on the basis of inter-temporal balance of trade, Japan's imports in the coming years will rise faster than its exports.[29] Then it may be argued that Japan can use this opportunity to aggressively lead other East Asian countries towards liberalization. But once again, it is difficult to imagine other countries participating in a negotiation when import expansion in Japan is expected to happen through market forces in any case and there are no formal offers on the table for a reduction in trade barriers.

[29]The argument here is that Japan will not keep accumulating dollars for ever. It must spend them some time.

A final and important point is that even if we can somehow identify substantial trade barriers in Japan and other countries which can be negotiated away on a nondiscriminatory basis, the likely decline in the terms of trade of the region could be substantial. This is because two thirds of the region's exports are sold to extra-regional markets. Therefore, the free-rider problem which the negotiating parties at the GATT were able to avoid will be unavoidable for East Asia. As Finger (1979) has shown, an extremely large proportion of the total trade in goods which were liberalized by the United States, EC and Japan under the GATT agreements was among these very countries. Therefore, the free rider problem associated with the liberalization was minimal. This is unlikely to be the case for East Asia.

4. Conclusions

On the whole, this paper takes a pessimistic view of regionalism in East Asia. The pessimism follows, inter alia, from low or negative gains in the case of sub-regional groupings such as the AFTA, insurmountable external and internal barriers to effective integration in the case of an Asia wide discriminatory bloc, and adverse terms of trade effects in the case of nondiscriminatory regionalism. In the ultimate, if regionalism is to be pursued, it is perhaps the last option which holds most promise. This option has the limitation that it may not offer large opportunities for liberalization and, if it does, the terms of trade effects on East Asia will be adverse. Yet, it has the advantage of promoting a more liberal and open world trading system. The long run gains from this openness far outweigh the short term losses arising from adverse terms of trade effects.

It bears repeating that the case against a discriminatory regional approach in East Asia is not based so much on its direct economic impact--either favorable or unfavorable--as on its infeasibility in the current environment. With many of the countries in the region selling an extremely high proportion of their exports to the United States, the ability of the latter to subvert a trading bloc in the region through both carrot and stick is beyond doubt. On the one hand, the United States can offer an FTA to countries such as Korea and Singapore in return for staying out of an East Asian bloc while on the other it can threaten them with retaliation if they go ahead with such a bloc.[30]

This reality combined with the persistent trade deficits of the U.S. economy suggest that the best strategy for Japan and its East Asian trading partners today is to assume the same leadership role in the world economic affairs that England played in the 19th century and the United States did in the post-Second-World-War era. This means that, on the one hand, Japan should express its strong support for Uruguay Round and take a leadership role in pushing aggressively for continued openness in the world trading system beyond the Uruguay Round. It is likely that the emphasis on savings placed in Japan after the Second World War, which eventually led to the build up of huge trade surpluses, will now give way to increased expenditures and hence larger imports. A similar phenomenon is likely to play out in China. Taking advantage of this opportunity, Japan and China could take the high ground and lead East Asia and ultimately the world into a round of further trade liberalization.

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[30]This is not to suggest that circumstances could not change ten years from now. For instance, ten years ago, it was difficult to imagine an FTA between the United States and Mexico but today it is more or less a reality.

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TABLE 1

REAL AVERAGE ANNUAL RATES OF GROWTH (%)

	GDP			EXPORTS			IMPORTS		
YEAR	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90
INDONESIA	3.9	7.6	5.5	4.0	8.7	2.8	2.0	11.9	1.4
MALAYSIA	6.5	7.8	5.2	5.8	7.4	10.3	2.3	7.0	5.6
PHILIPPINES	5.1	6.3	0.9	2.2	7.0	2.5	7.1	3.4	2.3
THAILAND	8.4	7.2	7.6	5.2	11.8	13.2	11.2	5.4	10.2
SINGAPORE	8.8	8.5	6.4	4.2	12.0	8.6	5.9	9.9	6.7
HONG KONG	10.0	9.3	7.1	12.7	9.4	6.2	9.2	11.7	11.0
KOREA	8.6	9.5	9.7	34.1	23.0	12.8	20.5	11.8	10.8
TAIWAN (CHINA)	N.A.	N.A.	N.A.	N.A.	18.9*	12.1	N.A.	15.1*	10.1
JAPAN	10.9	5.0	4.1	17.2	8.9	4.2	13.7	4.4	5.6
CHINA	5.2	5.8	9.5	N.A.	4.8*	11.0	N.A.	7.4*	9.8
INDUSTRIAL MARKET ECOS	5.2	3.2	3.1	10.9	-0.6	4.3	10.9	22.3	5.3
USA	4.3	3.0	3.4	6.0	6.9	3.3	9.8	4.8	7.6
GERMANY	4.4	2.6	2.1	10.1	5.8	4.2	10.0	5.9	3.9
MIDDLE INCOME ECOS	5.9	5.6	3.2	5.4	3.9	3.8	6.4	4.2	0.9
NDIA	3.4	3.6	5.3	3.0	3.7	6.5	-0.9	2.8	4.2
BRAZIL	5.4	8.4	2.7	5.1	7.5	4.0	4.9	4.2	-0.3
MEXICO	7.2	5.2	1.0	2.8	13.4	3.4	6.4	7.0	-1.1

**) Data for the period 1965-80.*

FROM WORLD DEVELOPMENT REPORTS (1982,1987,1992)
(SOURCES: U.N. SYSTEM OF NATIONAL ACCOUNTS (GDP) AND
.N. COMTRADE DATA SUPPLEMENTED BY WORLD BANK ESTIMATES (EXPORTS AND IMPORTS).)

<u>TABLE 2</u>

EAST ASIA: ECONOMIC INDICATORS

	YEAR	GNP PER CAPITA	SHARE IN WORLD GDP (%)	SHARE IN WORLD POPULATIO (%)	SHARE IN WORLD EXPORTS (%)	SHARE IN WORLD IMPORTS (%)	EXPORT TO GDP RATIO (%)	IMPORT TO GDP RATIO (%)
ASEAN 4	1980	853	1.48	5.46	2.27	1.85	28	23
	1985	978	1.49	5.57	2.33	1.83	25	20
	1990	1260	1.27	5.62	2.40	2.64	31	35
INDONESIA	1980	430	0.69	3.15	1.06	0.51	28	14
	1985	530	0.70	3.18	0.95	0.50	21	12
	1990	570	0.49	3.20	0.72	0.59	24	20
MALAYSIA	1980	1620	0.22	0.29	0.63	0.51	53	44
	1985	2000	0.25	0.31	0.79	0.60	49	39
	1990	2320	0.20	0.32	0.82	0.79	69	69
PHILIPPINES	1980	690	0.29	1.03	0.28	0.39	18	26
	1985	580	0.25	1.07	0.23	0.27	15	18
	1990	730	0.20	1.10	0.22	0.35	18	30
THAILAND	1980	670	0.28	0.99	0.31	0.44	20	29
	1985	800	0.30	1.01	0.36	0.45	19	25
	1990	1420	0.38	1.00	0.64	0.90	28	41
NIEs	1980	3135	1.27	1.34	2.73	3.25	40	48
	1985	4761	1.65	1.33	4.24	4.27	40	42
	1990	8945	2.34	1.29	5.57	5.77	39	42
SINGAPORE	1980	4430	0.10	0.05	0.93	1.13	165	205
	1985	7420	0.14	0.05	1.16	1.29	129	149
	1990	11160	0.16	0.05	1.47	1.65	150	173
HONG KONG	1980	4240	0.24	0.11	0.95	1.06	72	82
	1985	6230	0.27	0.11	1.54	1.46	90	89
	1990	11490	0.33	0.10	2.29	2.23	115	116

TABLE 2 (cont.)

EAST ASIA: ECONOMIC INDICATORS

	YEAR	GNP PER CAPITA	SHARE IN WORLD GDP (%)	SHARE IN WORLD POPULATIO (%)	SHARE IN WORLD EXPORTS (%)	SHARE IN WORLD IMPORTS (%)	EXPORT TO GDP RATIO (%)	IMPORT TO GDP RATIO (%)
KOREA	1980	1520	0.55	0.81	0.84	1.05	28	36
	1985	2150	0.74	0.80	1.54	1.53	33	34
	1990	5400	1.12	0.77	1.81	1.89	27	29
TAIWAN	1980	2348	0.37	0.37	N.A.	N.A.	N.A.	N.A.
	1985	3244	0.50	0.37	N.A.	N.A.	N.A.	N.A.
	1990	7729	0.72	0.36	N.A.	N.A.	N.A.	N.A.
CHINA	1980	290	2.64	20.84	0.87	0.96	6	7
	1985	310	2.33	20.52	1.40	2.10	9	15
	1990	370	1.71	20.34	1.71	1.42	17	14
JAPAN	1980	9890	9.37	2.48	6.29	6.68	12	13
	1985	11300	10.73	2.36	9.02	6.40	13	10
	1990	25430	13.54	2.22	8.02	6.37	10	8
EAST ASIA	1980	2613	14.75	30.12	13.13	13.65	16	17
	1985	3456	16.20	29.78	18.33	15.67	18	16
	1990	6662	18.86	29.47	19.10	17.37	17	16
EAST ASIA (excl. JAPAN)	1980	1804	5.38	27.64	6.84	6.97	23	24
	1985	2585	5.46	27.42	9.31	9.27	27	28
	1990	4577	5.31	27.26	11.08	11.01	34	35

SOURCES: WORLD DEVELOPMENT REPORT,
U.N. SYSTEM OF NATIONAL ACCOUNTS AND
IFS TRADE STATISTICS

TABLE 3

DIRECTION OF EXPORTS

PARTNER

EXPORTER	YEAR	NORTH AMERICA	WESTERN EUROPE	EUROPE	EAST ASIA (*)	LATIN AMERICA	AFRICA	MIDDLE EAST	SOUTH ASIA
NORTH AMERIC	1980	33.5	25.2	27.4	15.8	8.9	3.3	4.2	1.0
	1985	44.4	19.3	21.0	15.5	5.9	2.5	3.2	1.0
	1990	41.9	22.3	23.4	20.4	5.0	1.7	2.6	0.8
WESTERN EURO	1980	6.7	67.1	71.9	2.9	2.4	7.2	5.5	0.7
	1985	11.3	64.9	68.9	3.6	1.6	5.2	5.0	0.9
	1990	8.3	71.0	74.4	5.3	1.1	3.3	3.3	0.7
EUROPE	1980	6.3	63.7	72.7	2.7	2.3	6.9	5.5	0.7
	1985	11.0	63.5	69.2	3.4	1.6	5.1	5.0	0.9
	1990	8.2	70.6	74.5	5.2	1.1	3.3	3.3	0.7
EAST ASIA	1980	26.0	16.8	18.9	29.9	4.1	4.4	7.4	1.8
	1985	37.8	13.6	15.5	25.3	2.8	2.2	5.1	2.0
	1990	31.9	19.8	20.7	32.3	1.9	1.6	3.0	1.5
LATIN AMERICA	1980	27.9	26.5	35.1	5.4	16.6	2.7	1.9	0.5
	1985	35.8	25.9	30.4	7.1	12.1	3.7	3.0	0.7
	1990	22.9	25.3	27.6	10.3	14.0	2.1	2.4	0.4
AFRICA	1980	27.4	43.6	46.1	4.3	3.2	1.8	1.7	0.3
	1985	14.8	64.9	69.3	1.8	4.2	5.1	2.2	0.7
	1990	3.0	66.0	68.0	4.6	0.6	12.8	4.4	3.6
MIDDLE EAST	1980	11.5	40.3	41.5	28.7	5.0	1.5	4.1	2.5
	1985	6.2	15.0	17.7	1.5	0.3	1.4	8.7	0.4
	1990	17.8	48.6	53.0	9.1	1.2	3.6	8.5	0.9
SOUTH ASIA	1980	10.9	24.6	39.4	14.5	0.5	6.8	14.5	5.6
	1985	18.4	20.8	37.0	16.4	0.4	4.6	11.0	4.4
	1990	17.1	30.1	46.6	18.3	0.3	2.7	6.5	3.2

(*) East Asia does not include China.

SOURCE: U.N. COMTRADE DATA

TABLE 4

TRADE PROTECTION IN EAST ASIA AND THE PACIFIC: SELECTED ECONOMIES

	Average Nominal Tariff (Unweighted)		Percent of Import Items Subject to Import Restrictions		Effective Protection Rate in Manufacturing
	Early 1980s	Current	Early 1980s	Current	Current
KOREA	25.0 (1980)	18.0 (1988)	31.4 (1980)	4.6 (1980)	28.2 (1982)
INDONESIA	37.0 (1982)	22.0 (1991)	31.5 (1986)	16.3 (1980)	59.0 (1990)
MALAYSIA	11.6 (1980)	13.6 (1985)	< 5 (1980)	< 5 (1985)	23.0 (1982)
PHILIPPINES	43.1 (1980)	27.9 (1991)	37.0 (1980)	8.0 (1990)	20.0 (1984)
THAILAND	31.0 (1981)	34.0 (1985)	< 5 (1981)	< 5 (1991)	51.2 (1988)

NOTE: Effective Protection Rate (EPR) for Thailand excludes agro-processing and uses value-added at world prices as weights. Using the more standard weighting of value-added at domestic prices yields an EPR of 60.7 in 1988.

SOURCE: WORLD BANK COUNTRY REPORTS AND STAFF ESTIMATES.

TABLE 5

DIRECTION OF EXPORTS: NIEs, CHINA AND JAPAN
(as percentage of total exports to the world)

EXPORTER	YEAR	TOTAL EXPORT (in billion $)	NIEs	ASEAN 4	CHINA (**)	JAPAN	EAST ASIA	E. C.	NORTH AMERICA	OTHER
					PARTNER					
NIEs	1980		9.0	8.9	0.9	10.3	29.1	17.2	28.3	25.3
	1985		8.5	7.0	2.3	10.7	28.5	11.4	40.7	19.5
	1990		13.0	9.3	3.2	12.7	38.2	15.5	31.1	15.2
	1990 *	249.8	12.5	8.9	8.4	11.5	41.4	14.7	27.1	16.7
	1991 *	279.7	13.8	9.2	9.9	10.2	43.2	14.7	24.1	18.0
HONG KONG	1980		4.2	2.8	2.4	3.4	12.8	29.5	36.0	21.7
	1985		3.0	2.0	11.7	3.4	20.1	18.4	47.9	13.5
	1990		6.8	3.2	21.0	5.3	36.3	20.4	32.1	11.2
	1990 *	65.5	12.2	5.0	31.0	3.3	51.5	14.8	17.5	16.2
	1991 *	76.0	11.5	4.4	35.[illegible]	2.7	53.8	13.8	15.1	17.3
KOREA	1980		7.4	4.9	0.0(4.7)	17.3	29.6	15.6	26.6	26.2
	1985		7.4	3.4	0.0(5.2)	15.0	25.8	10.7	39.8	23.7
	1990		10.4	5.0	0.0(5.8)	19.4	34.8	13.7	33.5	18.1
	1990 *	65.0	7.6	5.1	0.0(2.9)	21.1	33.8	13.6	32.6	20.0
	1991 *	68.3	8.9	6.2	0.4(3.1)	17.9	33.0	14.5	28.9	23.6
SINGAPORE	1980		10.9	20.8	1.6	8.1	41.3	12.8	13.6	32.3
	1985		9.3	20.6	1.5	9.4	40.7	10.6	22.0	26.7
	1990		13.6	20.9	1.5	8.7	44.8	14.4	22.3	18.5
	1990 *	52.8	12.3	20.9	1.5	8.8	43.5	14.4	22.1	20.0
	1991 *	59.2	13.1	22.4	1.5	8.7	45.7	14.0	20.5	19.8
TAIWAN (CHINA)	1980		12.0	5.1	(7.9)	11.0	28.1	14.6	37.0	20.3
	1985		12.0	3.1	(8.3)	11.3	26.4	8.8	51.6	13.1
	1990		17.8	6.8	(12.8)	12.4	37.1	16.0	35.3	11.7
	1990 *	66.5	17.9	6.9	(12.8)	12.5	37.3	16.1	35.1	11.5
	1991 *	76.2	21.2	6.5	(16.3)	12.1	39.8	16.3	31.5	12.4
CHINA	1980		N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	1984		31.5	3.0	(26.5)	20.6	55.1	9.0	10.3	25.6
	1990		48.6	2.8	(42.9)	14.5	65.9	9.1	9.2	15.8
	1990 *	64.5	14.6	3.3	(10.8)	18.7	36.6	19.1	26.0	18.3
	1991 *	72.0	11.3	3.0	(5.5)	19.8	34.1	23.5	29.0	13.4
JAPAN	1980		14.8	7.0	3.9	0.0	25.7	13.9	27.3	33.1
	1985		12.3	4.2	7.1	0.0	24.1	12.0	40.7	23.3
	1990		19.7	7.7	2.1	0.0	29.6	18.8	34.8	16.8
	1990 *	287.7	19.8	7.8	2.1	0.0	29.7	18.8	34.0	17.5
	1991 *	314.9	21.3	5.1	2.7	0.0	29.1	18.9	31.6	20.4

(**) Figures in parenthesis are exports to Hong Kong
** Direction of Trade data adjusted for exports of China through Hong Kong*

SOURCE: U.N. COMTRADE DATA
** IMF DIRECTION OF TRADE DATA*

TABLE 6

DIRECTION OF EXPORTS: ASEAN 5
(as percentage of total exports to the world)

EXPORTER	YEAR	TOTAL EXPORT (in billion $)	ASEAN 4	NIEs excl. SINGAPOR	SINGAPOR (**)	JAPAN	EAST ASIA	E. C.	NORTH AMERICA	OTHER
			PARTNER							
ASEAN 4	1980		3.2	5.3	11.8	34.6	55.6	13.6	19.2	11.5
	1985		4.5	8.1	11.9	30.6	56.7	12.0	20.6	10.7
	1990 @		4.1	9.7	12.2	24.7	52.8	16.0	20.1	11.1
	1991 *	100.6	4.0	10.1	12.9	23.0	52.3	16.1	19.4	12.2
INDONESIA	1980		1.3	3.7	11.3	49.3	65.5	6.5	19.8	8.1
	1985		1.9	7.3	8.7	46.2	64.7	6.2	22.0	7.1
	1990		2.4	10.9	7.1	42.7	66.4	11.9	13.9	7.9
	1991 *	29.1	2.7	12.7	8.3	37.0	64.8	12.8	12.6	9.8
MALAYSIA	1980		3.2	5.7	19.1	22.8	52.5	17.6	16.9	13.0
	1985		6.3	9.6	19.5	23.8	60.2	14.6	13.7	11.5
	1990		6.0	10.0	22.8	15.8	56.6	14.9	17.9	10.5
	1991 *	34.4	5.6	10.4	23.3	15.9	57.1	14.8	17.7	10.4
PHILIPPINES	1980		4.6	8.5	1.9	26.5	42.2	17.6	29.1	11.2
	1985		6.0	7.5	5.3	19.0	39.5	15.8	37.5	7.2
	1988		3.7	9.9	2.9	20.3	37.7	17.7	37.4	7.1
	1991 *	8.8	4.3	9.4	2.6	20.0	37.7	18.6	37.3	6.4
THAILAND	1980		8.5	7.1	7.4	15.3	40.1	26.4	13.2	20.2
	1985		6.4	7.5	7.7	13.4	38.8	19.2	21.1	20.9
	1990		3.9	7.8	7.3	17.2	37.3	21.6	24.5	16.6
	1991 *	28.3	3.2	7.3	8.3	18.2	38.2	20.3	22.9	18.6
SINGAPORE	1980		20.8	10.9	(15.0)	8.1	41.3	12.8	13.6	32.3
	1984		20.6	9.3	(15.5)	9.4	40.7	10.6	22.0	26.7
	1990		20.9	13.6	(13.0)	8.7	44.8	14.4	22.3	18.5
	1991 *	59.2	22.4	13.1	(14.9)	8.7	45.7	14.0	20.5	19.8

(**) Figures in parenthesis are exports of Singapore to Malaysia
@ Figures for Philippines used to calculate 1990 ASEAN 4 shares correspond to 1988
** Direction of Trade data adjusted for exports of China through Hong Kong*

SOURCE: U.N. COMTRADE DATA
** IMF DIRECTION OF TRADE DATA*

TABLE 7

DIRECTION OF IMPORTS: NIEs, CHINA AND JAPAN
(as percentage of total imports from the world)

IMPORTER	YEAR	TOTAL IMPORT (in billion $)	NIEs	ASEAN 4	CHINA (**)	JAPAN	EAST ASIA	E. C.	NORTH AMERICA	OTHER
			COUNTRY OF ORIGIN							
NIEs	1980		6.9	8.2	5.7	23.4	44.2	9.8	18.9	27.1
	1985		8.3	8.1	9.2	22.7	48.3	10.7	18.2	22.8
	1990		10.6	7.4	12.2	22.6	52.8	11.7	18.6	16.9
	1990 *	246.9	11.2	7.8	3.6	24.3	47.0	13.8	19.6	19.7
	1991 *	282.9	11.8	8.6	2.2	25.1	47.7	13.3	19.4	19.6
HONG KONG	1980		15.8	3.9	20.0	23.3	63.0	12.5	12.8	11.7
	1985		17.5	2.8	25.5	23.1	68.8	11.6	9.9	9.7
	1990		17.5	3.6	36.8	16.1	74.0	9.8	8.6	7.7
	1990 *	62.3	23.2	3.8	11.1	21.3	59.4	12.9	11.2	16.5
	1991 *	72.1	25.1	5.1	5.5	22.7	58.4	12.8	11.1	17.7
KOREA	1980		2.6	5.9	(0.4)	26.2	34.7	7.3	23.9	34.1
	1985		3.5	7.1	(1.6)	24.2	34.8	9.8	23.3	32.1
	1990		4.3	5.6	(0.9)	26.7	36.6	12.1	26.8	24.5
	1990 *	69.8	4.0	5.8	(1.2)	26.4	36.2	15.5	25.5	22.8
	1991 *	81.2	4.3	5.8	(0.9)	26.4	36.5	15.5	25.5	22.5
SINGAPORE	1980		5.6	16.2	2.6	17.8	42.2	11.0	14.7	32.1
	1985		6.8	17.2	8.6	17.0	49.6	11.3	15.6	23.5
	1990		10.7	16.9	3.4	20.1	51.2	12.9	16.7	19.3
	1990 *	61.0	10.2	16.7	3.4	20.1	50.4	12.8	16.7	20.1
	1991 *	66.3	10.0	18.9	3.4	21.3	53.6	12.0	16.5	17.9
TAIWAN (CHINA)	1980		3.4	5.9	(1.3)	27.2	36.5	8.2	25.2	30.2
	1985		3.9	5.7	(1.6)	27.5	37.2	10.2	25.9	26.7
	1990		8.1	4.9	(2.3)	30.0	42.9	13.0	25.4	18.6
	1990 *	53.8	7.8	4.8	(2.7)	30.0	42.6	13.6	25.0	18.8
	1991 *	63.3	8.2	5.5	(3.1)	30.0	43.7	12.3	24.1	19.9
CHINA	1980		N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	1984		11.5	2.6	(10.9)	31.3	45.4	12.7	19.1	22.8
	1990		33.6	3.9	(26.5)	14.2	51.8	15.0	15.2	18.0
	1990 *	54.4	32.8	4.1	(26.7)	14.1	51.0	15.3	14.8	18.9
	1991 *	64.0	36.4	4.4	(27.3)	15.8	56.6	13.3	15.1	15.0
JAPAN	1980		5.3	14.1	3.1	0.0	22.4	5.8	21.5	50.3
	1985		7.7	13.1	5.1	0.0	25.9	6.9	25.5	41.7
	1990		11.2	10.5	5.2	0.0	26.9	15.0	27.1	31.1
	1990 *	235.3	11.0	10.4	5.1	0.0	26.5	15.0	26.1	32.4
	1991 *	236.6	11.5	11.3	6.0	0.0	22.8	13.5	25.9	37.8

(**) Figures in parenthesis are imports from Hong Kong
** Direction of Trade data adjusted for imports of China through Hong Kong*

SOURCE: U.N. COMTRADE DATA
** IMF DIRECTION OF TRADE DATA*

TABLE 8

DIRECTION OF IMPORTS: ASEAN 5
(as percentage of total imports from the world)

COUNTRY OF ORIGIN

IMPORTER	YEAR	TOTAL IMPORT (in billion $)	ASEAN 4	NIEs excl. SINGAPOR	SINGAPOR (**)	JAPAN	EAST ASIA	E. C.	NORTH AMERICA	OTHER
ASEAN 4	1980		4.0	6.1	7.4	24.1	44.5	13.4	17.8	24.3
	1985		6.0	6.8	9.7	23.4	48.7	14.4	17.6	19.3
	1990 @		3.9	10.9	8.9	26.2	52.7	14.9	15.4	16.9
	1991 *	112.2	3.9	11.0	9.7	26.3	50.9	14.5	14.9	19.7
INDONESIA	1980		3.8	7.4	8.6	31.5	53.2	13.6	14.0	19.2
	1985		1.2	5.3	8.2	25.8	42.9	17.6	18.8	20.7
	1990		2.6	11.9	5.8	24.3	47.6	18.6	13.7	20.1
	1991 *	25.9	3.0	11.6	6.6	24.5	45.7	18.2	14.3	21.8
MALAYSIA	1980		4.7	5.5	11.7	23.0	47.2	15.7	16.1	21.0
	1985		6.6	6.6	15.8	23.2	54.2	14.1	16.4	15.2
	1990		4.2	10.4	14.6	25.3	56.5	13.2	18.5	11.7
	1991 *	36.7	4.2	10.3	15.5	26.1	56.1	13.6	16.1	14.2
PHILIPPINES	1980		4.5	6.5	1.6	19.9	35.1	10.7	24.7	29.5
	1985		11.5	11.1	2.6	14.4	45.0	8.5	26.0	20.5
	1988		4.7	14.5	4.0	17.4	43.7	12.6	22.3	21.3
	1991 *	12.9	5.3	16.2	3.7	19.4	44.6	10.2	21.5	23.7
THAILAND	1980		3.1	5.1	6.3	20.7	39.5	13.0	18.2	29.3
	1985		7.2	6.3	7.5	26.5	49.9	14.8	12.9	22.4
	1990		4.3	9.6	7.5	30.6	55.3	14.5	12.2	18.0
	1991 *	36.7	3.8	9.6	8.2	30.1	51.7	14.3	11.8	22.2
SINGAPORE	1980		16.2	5.6	(13.9)	17.8	42.2	11.0	14.7	32.1
	1984		17.2	6.8	(14.4)	17.0	49.6	11.3	15.6	23.5
	1990		16.9	10.7	(13.7)	20.1	51.2	12.9	16.7	19.3
	1991 *	66.3	18.9	10.0	(15.3)	21.3	50.2	12.0	16.7	21.1

(**) Figures in parenthesis are imports of Singapore from Malaysia
@ Figures for Philippines used to calculate 1990 ASEAN 4 shares correspond to 1988
** Direction of Trade data adjusted for imports of China through Hong Kong*

SOURCE: U.N. COMTRADE DATA
** IMF DIRECTION OF TRADE DATA*

TABLE 9

UTILIZATION OF PREFERENTIAL TRADING ARRANGEMENTS IN 1987

Country	No. of Items Granted PTA	No. of Items in PTA List	Imports Granted PTA US$('000)	Total Imp. from ASEAN of PTA Granted Items US$('000)	Share of No. of Items (%)	Share of Value of Items (%)
INDONESIA	45	2,754	15,258	50,426	1.6	30.3
MALAYSIA	86	2,267	28,868	131,286	3.8	22.0
PHILIPPINES	na	3,443	na	na	na	na
SINGAPORE	114	2,465	35,970	293,608	4.6	12.3
THAILAND	95	1,854	21,352	58,366	5.1	36.9
TOTAL	337	12,783	101,628	239,214	2.6	42.5

SOURCE: COMMITTEE ON TRADE AND TOURISM (COTT),ASEAN SECRETARIAT

<u>TABLE 10</u>

UTILIZATION OF PTA BY INDONESIA
1987-89

	1987	1988	1989
Exports by Indonesia			
1. World*	17,136	19,219	22,159
2. ASEAN*	1,704	2,079	2,429
(% Share 2/1)	9.9	10.8	11.0
3. Total PTA*	25	57	84
(% Share 3/2)	1.4	2.8	3.5
Imports by Indonesia			
1. World*	12,370	13,248	16,360
2. ASEAN*	1,244	1,305	1,766
(% Share 2/1)	10.1	9.9	10.8
3. Total PTA*	15	27	28
(% Share 3/2)	1.2	2.1	1.6

** VALUES EXPRESSED IN MILLIONS OF DOLLARS.*
SOURCE: CENTRAL BUREAU OF STATISTICS AND MINISTRY TRADE

Table 11

Exporter	Australia	Canada	Indonesia	Japan	Market Korea	Malaysia	New Zealand	Philippines	Thailand	USA
Australia	X	6.9	6	5.5	17.9	2.7	16.2	16.7	20.2	
Canada	7.7	X	4.1	3	8.9	2.6	9.5	14.1	20.2	
China	32.3	14.8	11.5	4.1	NA	9.1	18.3	19.9	29.5	
Hong Kong	21	15.2	25.1	2.2	14.3	12.5	15.9	33	46.8	
Indonesia	8.4	7.9	X	3.2	9.6	7.3	7.1	14.3	33.5	5.1
Japan	21.2	7.3	14.2	X	18.6	11.7	19.2	22.6	45.3	3.5
Korea	25	13	16.1	4	X	10.6	18.8	25	38.4	7.5
Malaysia	8	7.1	8.7	0.9	6.6	X	12.7	13.5	27.8	2.6
New Zealand	12.3	10.2	7.7	6.3	11.4	3.6	X	16.4	27.4	2.3
Philippines	17.3	11.2	2.6	4.1	16.8	3.7	13.4	X	39.8	6.2
Singapore	7	5.2	9.7	3.4	15	10.1	13.1	21.5	38	3.6
Taiwan	19.5	12.4	16.1	3.5	18.9	12	20.2	30.2	42.4	7.3
Thailand	16.8	10.1	7.5	11.2	62.3	6.1	15.9	22.9	X	3.9
USA	9.4	7.1	10.5	5.8	12.6	5.4	9.8	20.6	29.4	

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